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## Research Update:

# Car Park Operator Infra Park Outlook Revised To Stable From Positive On Proposed Refinancing; 'BBB' Rating Affirmed

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## Overview

- Infra Park has launched an offering of new senior unsecured notes to refinance some existing debt and reimburse a shareholder loan provided by its parent, InfraFoch TopCo, which we treated as equity. The final amount of the notes depends on market conditions.
- While we still forecast the group could achieve strong cash flow ratios in the next two years, the increase in external financial debt and early repayment of shareholder loan is an indication to us that the company is not committed to maintaining its FFO to debt above 13% on a sustainable basis.
- We are therefore revising our outlook on Infra Park to stable from positive and affirming our long-term rating at 'BBB'. We are also affirming our 'BBB' issue rating on the existing debt and assigning a 'BBB' issue rating to the proposed new notes.
- The stable outlook reflects our view that the company will be able to maintain its ratio of weighted average funds from operations (FFO) to debt at around 12%-13% through a combination of revenue growth and cost optimization, which provides a good degree of headroom to the rating.

## Rating Action

On April 10, 2018, S&P Global Ratings revised the outlook on France-based car park operator Infra Park SAS to stable from positive and affirmed the long-term issuer credit rating at 'BBB'.

At the same time, we affirmed our 'BBB' issue rating on Infra Park's existing debt and assigned a 'BBB' issue rating to the proposed senior unsecured debt.

## Rationale

The affirmation follows Infra Park's announcement of its plan to raise further debt to repay €500 million senior unsecured notes due 2020, and to reimburse the 8.25% fixed rate €100 million shareholder loan provided by its parent, InfraFoch TopCo, that we treated as equity. The final size of the issuance remains subject to market conditions but according to the information presented to us we expect a limited impact on the company's credit metrics compared to our base-case forecast. This is because it will lead to an overall lower financing cost, given the high interest paid on the shareholder loan, and because we now expect lower new fixed concession fees liabilities in 2018, as we explain in the assumptions below.

We continue to forecast relatively strong credit ratios for the rating, namely that Infra Park will be able to maintain adjusted FFO to debt at about 12%-13% over 2018-2019 through a combination of revenue growth and cost optimization. That said, the increase in external financial debt and the early repayment of the shareholder loan are an indication to us that the company is not committed to maintaining its FFO to debt sustainably above 13%. Furthermore, we expect the company's financial leverage to remain steady between 5.0x-6.0x debt to EBITDA, which creates a relatively high exposure to refinancing risk in the future.

Infra Park delivered solid business growth last year, reflected in FFO to debt of about 13.4% in 2017 (14.6% if we were to consider the shareholder loan as equity). Such performance has been supported by the successful implementation of the cost efficiency plan launched by the company in France, whereby the reduced revenues stemming from the expiry of some contracts have been more than compensated by cost optimization.

The current rating continues to be supported by Infra Park's position as one of the largest parking operators globally, with about 2.3 million parking spaces operated worldwide. Despite generating about 78% of its reported EBITDA in France, the company continues consolidating its position in North and South America, through joint ventures with local partners. Contracts in these markets are shorter and less profitable compared to French and western European concession frameworks, but the company maintains an average remaining contract duration of about 25 years. These strengths are partially offset by the exposure of parking volumes to conjectural events such as terrorist attacks or strikes as well as promotion of green policies by local municipalities. In the long term, we see the industry exposed to the development of electric and autonomous cars that could pose a potential threat depending on how the regulation will support potential industry changes.

Our assumptions for in 2018-2019 include:

- Annual revenue growth of about 2% in France and Western Europe, reflecting tariff growth in line with our consumer price index assumptions and the ramp-up of some new contracts.
- In North America and Brazil we assume relatively stable EBITDA generation, reflecting less exposure to demand risk and therefore lower but more stable profitability levels.
- Stable S&P Global Ratings-adjusted EBITDA margin of 46%-47%, supported by cost efficiency measures and not significantly impacted by overseas operations.
- No new acquisitions and no change in the scope of the consolidation.
- Capital expenditure (capex) of about €130 million per year and dividends

of about €80 million-€120 million per year.

- The proposed new notes, at a 2% fixed interest rate.
- Additional concession fees liabilities reported on-balance sheet for about €25 million in 2018 and €80 million in 2019.
- We no longer treat the shareholder loan as equity given the company's plan to refinance it early.
- Under International Financial Reporting Standards (IFRS), 12 the fixed concession fees liabilities are included in the reported debt. They are difficult to predict as they are subject to new concessions awards.

Based on these assumptions, we arrive at the following credit measures:

- FFO to debt of 12.5%-13.0%;
- Debt to EBITDA of 5.5x-6.0x; and
- FFO interest coverage of 7.0x-7.5x.

### Liquidity

We assess Infra Park's liquidity as strong based on our expectation that sources of liquidity will exceed uses by about 2.4x in the 12 months ending Dec. 31, 2018. Our assessment is also supported by our view that the company would be able to absorb high-impact, low-probability events without refinancing, has well-established, strong relationships with banks, and generally prudent risk management. There are no financial covenants on existing debt.

Principal liquidity sources are:

- Unrestricted cash and equivalents of about €170 million as of Dec. 31, 2017;
- Undrawn committed revolving credit facility of €300 million, out of which €275 maturing in October 2022 and the remaining portion in October 2021; and
- FFO of about €200 million.

Principal liquidity uses are:

- Debt maturities of about €53 million, mainly represented by payments of fixed concession fees reported as on-balance sheet;
- Capex of about €130 million; and
- Dividends of about €100 million.

## Outlook

The stable outlook reflects S&P Global Ratings' view that Infra Park will be able to maintain adjusted FFO to debt at about 12%-13% through a combination of revenue growth and cost optimization. These ratios provide a good degree of headroom to the rating.

### Upside scenario

We could raise the rating by one notch if the company was able to maintain its FFO-to-debt ratio sustainably above 13% in a combination with a committed and predictable financial policy.

### Downside scenario

We could take a negative rating action if, in our view, Infra Park was not able to maintain its FFO-to-debt ratio comfortably above 10%. This could result from higher-than-expected shareholder distribution or acquisition strategy not supported by adequate EBITDA growth due to stagnant revenues or falling operating margins.

We could also consider a downgrade if the company significantly changed its business mix so that exposure to non-infrastructure business--such as management contracts and short-term leases--increased to about 30% of EBITDA, likely resulting in adjusted EBITDA margins falling below 30%. This would likely weaken our view of the company's business risk profile.

## Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/--

Business risk: Strong
- Country risk: Low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

## Issue Ratings--Subordination Risk Analysis

### Capital structure

Infra Park's capital structure consist of about €1.4 billion senior unsecured notes, as of Dec. 31, 2017.

### Analytical conclusions

Infra Park's existing and proposed debt are rated 'BBB', at the same level as the issuer credit rating, because the amount of debt located at the level of Infra Park's subsidiaries is limited (about €18 million of financial debt and €5 million of leasing debt).

## Reconciliation

**Table 1**

**Reconciliation Of Infra Park S.A.S. Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. €)**

| | --Fiscal year ended Dec. 31, 2017-- | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Infra Park S.A.S. reported amounts** | | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **Revenues** | **EBITDA** | **Operating income** | **Interest expense** | **EBITDA** | **Cash flow from operations** | **Capital expenditures** |
| Reported | 1,843.9 | 623.4 | 766.1 | 313.9 | 122.8 | 41.6 | 313.9 | 238.1 | 163.0 |
| **S&P Global Ratings adjustments** | | | | | | | | | |
| Interest expense (reported) | -- | -- | -- | -- | -- | -- | (41.6) | -- | -- |
| Interest income (reported) | -- | -- | -- | -- | -- | -- | 0.2 | -- | -- |
| Current tax expense (reported) | -- | -- | -- | -- | -- | -- | (45.5) | -- | -- |
| Operating leases | 169.7 | -- | -- | 36.2 | 12.1 | 12.1 | 24.1 | 24.1 | -- |
| Postretirement benefit obligations/deferred compensation | 14.7 | -- | -- | 0.2 | 0.2 | 0.3 | 0.3 | (0.8) | -- |
| Surplus cash | (155.1) | -- | -- | -- | -- | -- | -- | -- | -- |
| Capitalized interest | -- | -- | -- | -- | -- | 0.4 | (0.4) | (0.4) | (0.4) |
| Share-based compensation expense | -- | -- | -- | 1.7 | -- | -- | 1.7 | -- | -- |
| Dividends received from equity investments | -- | -- | -- | 10.4 | -- | -- | 10.4 | -- | -- |
| Non-operating income (expense) | -- | -- | -- | -- | 0.2 | -- | -- | -- | -- |
| Non-controlling Interest/Minority interest | -- | 11.3 | -- | -- | -- | -- | -- | -- | -- |
| Debt - Other | 43.0 | -- | -- | -- | -- | -- | -- | -- | -- |

**Table 1**

**Reconciliation Of Infra Park S.A.S. Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. €) (cont.)**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Revenues - Other | -- | -- | (33.9) | (33.9) | (33.9) | -- | (33.9) | -- | -- |
| COGS- Other non-operating nonrecurring items | -- | -- | -- | 33.9 | 33.9 | -- | 33.9 | -- | -- |
| EBITDA - Income (expense) of unconsolidated companies | -- | -- | -- | (7.8) | (7.8) | -- | (7.8) | -- | -- |
| EBITDA - Gain/(Loss) on disposals of PP&E | -- | -- | -- | 0.1 | 0.1 | -- | 0.1 | -- | -- |
| D&A - Impairment charges/(reversals) | -- | -- | -- | -- | 6.1 | -- | -- | -- | -- |
| EBIT - Income (expense) of unconsolidated companies | -- | -- | -- | -- | 7.8 | -- | -- | -- | -- |
| Total adjustments | 72.3 | 11.3 | (33.9) | 40.8 | 18.7 | 12.8 | (58.4) | 23.0 | (0.4) |

**S&P Global Ratings adjusted amounts**

| | Debt | Equity | Revenues | EBITDA | EBIT | Interest expense | Funds from operations | Cash flow from operations | Capital expenditures |
|---|---|---|---|---|---|---|---|---|---|
| Adjusted | 1,916.2 | 634.7 | 732.2 | 354.7 | 141.5 | 54.4 | 255.5 | 261.1 | 162.6 |

Our main analytical adjustments to reported financials are described below.

- We increase the reported debt by operating lease adjustments, in line with annual payment information received by the company.
- We include in the debt pension liabilities.
- We consider about €15 million of cash as restricted as it represents payment due to municipalities.
- We include in our adjusted debt the value of the put option held by non-controlling interest in AGE Brazilian subsidiary (€35.7 million) as well as liabilities related to employee savings mutual fund and long-term remuneration plans.
- We deduct from both revenues and operating expenditures the amount related to construction services.
- We are not treating anymore the shareholder loan as equity, given the intention of the company to reimburse it following the proposed refinancing.

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

| | To | From |
|---|---|---|
| Infra Park S.A.S. | | |
| Indigo Infra S.A.S. | | |
| Issuer Credit Rating | BBB/Stable/-- | BBB/Positive/-- |
| | | |
| Infra Park S.A.S. | | |
| Senior Unsecured | BBB | BBB |

New Rating

| | |
|---|---|
| Infra Park S.A.S. | |
| Senior Unsecured | BBB |

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.